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ISSUES FOR THE MEMORANDUM TO THE MANAGING DIRECTOR OF THE INTERNATIONAL MONETARY FUND

INTRODUCTION

The African economic situation continues to be precarious because the underlying problems of the economic crisis remain unresolved. The never ending decline in commodity prices still constitutes a major obstacle to any attempt by African countries to increase their export revenues. It is estimated that real commodity prices in 1981-1985 averaged 7 per cent below the level of 1960 and 16 per cent below the average for 1960-1980 1/. The fall in commodity prices was accompanied by an increase in "protectionism" in the industrial countries making access to these traditional markets more difficult. Attempts to increase volumes exports in order to maintain revenues at reasonable levels have failed in face of tariff and non-tariff barriers that are now institutionalised in the developed market economies.

To make matters worse, there was a sharp decline in resource flows in real terms to Africa especially the official development assistance (ODA) and a substantial reduction in export credits and foreign investment. This situation aggravated the already acute balance of-payments problems of many African countries with the attendant wide-spread negative effects on investment, employment and production levels and hence hamper all efforts aimed at recovery and development. In addition, the growing problems of external debt service obligations continue to place an ever increasing burden on the already much weakened economies of African countries the least developed countries of the continent being the ones that suffer most from the present crisis.

To these factors must be added the unstable and high real interest rates together with the fluctuations in exchange rates which continue to be the main features of the international monetary and financial scene and which maintain great uncertainties with regard to revenues and expenditure and render any forward planning of recovery and development almost impossible or at best very difficult.

1. IMF adjustment programmes

Despite all these adverse factors, African countries have been implementing IMF adjustment programmes which entailed the adoption of policies and measures which were invariably deflationary by nature and which have had contractionary effects on national income. The economic problems of Africa are of a structural nature and require the implementation of medium to long term programmes to overcome the underlying causes of the present crisis. The short term solutions proposed by the IMF could, at best, only alleviate temporarily some of the economic problems the countries are facing.

African governments have recognized that it is their responsibility to pull their countries out of the crisis and into the path to economic growth. This commitment was enshrined in the Priority Programme for Africa's Economic Recovery and Development 1986-1990 as well as the United Nations Programme of Action for Africa's Economic Recovery and Development 1986-1990, which constitute the main

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1/ IMF estimates.

guide for the countries for the next four years and any development programmes ought to concentrate on the priority areas defined therein.

It is a matter of great concern that the implementation of the IMF adjustment programmes have, in many instances, far outweighed the economic returns. In fact, in recent months a number of African countries have plunged into social and political crisis which is attributable to these programmes. We therefore appeal to IMF to design its adjustment programmes to take into account the structural nature of Africa's economic problems as well as the unfavourable international economic and financial environment in which adjustment programmes have to be implemented. The continuing high real interest rates and the instability in exchange rate of the major world currencies which are largely determined by the economic policies of developed nations have negative effects on the adjustment and development efforts of African countries. So far it has only been the weakest economies of the world which have been asked to undertake adjustment programmes, the developed countries which hold the key to the solution of many of the world monetary and financial problems have so far been unwilling to adjust or adopt economic policies conducive to world economic recovery and growth. Therefore, IMF surveillance of the economic policies of the industrial countries should be strengthened in the light of its mandate contained in its articles of agreement. We firmly believe that changes in the economic policies of the major industrial are the only option likely to establish an international economic environment which would facilitate adjustment and growth in the developing countries.

2. I.M.F. resources

It has been increasingly clear over recent years that the need for resources by developing African countries has outgrown their ability to mobilize such resources. This is a factor, among others, which points to the need for more international liquidity, not only to finance balance of payments disequilibra but also trade and development. It is in order to alleviate the need for more resources that the International Monetary Fund ought to seek a substantial increase in its resources through an increase in the quotas of its member countries especially bearing in mind the special needs of the African countries.

Closely related to the increase in resources is the question of issuance and allocation of S.D.Rs. African countries wish to stress that a new issue and allocation of SDR ought to be linked to the financing of development in developing countries in general and African countries in particular especially the least developed countries.

3. Access to fund resources

The economic crisis which has confronted African countries over recent years has had a notable negative effect in so far as it has greatly eroded the creditworthiness of most African countries vis-a-vis international capital markets. This fact, together with the decline in Official Development Assistance and other forms of external finance, has forced many African countries to turn

to the IMF for financial support. However, the conditionality attached to the access to IMF resources is still a matter of concern to African countries since it lacks in flexibility and has not so far been adapted to the structural and long term economic problems of African countries.

With regard to the Compensatory Financing Facility, it is disappointing that access to it by African countries is still restricted on the grounds that the export shortfall in African countries is not of a temporary nature. Taking into account the fact that African export earnings are almost all derived from the export of commodities whose prices are continuously falling, the access restrictions faced by African countries make it impossible for them to take advantage of this source of funding. We therefore call on the IMF to review the criteria governing access to the compensatory financing facility with a view to making the facility more accessible to African countries. The Compensatory Financing Facility should also be expanded in terms of resources in order to play its role in alleviating the problems linked to shortage of resources due to export shortfalls.

The Structural Adjustment Facility, although welcome as it was when it was created last year, is governed by conditions that are still very hard for African countries to comply with despite the many efforts that governments have made in order to satisfy these conditions. The IMF should look again into the conditionality attached to the Structural Adjustment Facility in the light of the experience gained in the course of last year and make the necessary changes in order to make the Facility more accessible and less burdensome to African countries. Moreover, the resources so far put at the disposal of the facility are insignificant compared to the needs of the low income developing countries. The IMF should, therefore, mobilise additional resources to supplement the resources of the Facility.

It is also important to stress the necessity of an improvement of the enlarged access policy to take into account the special and unique nature of African economic problems. To this end, since the amount that member countries have access to under this policy is closely linked to the quotas of the countries, the quotas ought to be increased as a first step towards the improvement of the policy.

4. Africa's External Indebtedness

Africa's debt servicing problems continue to constitute a very heavy burden on the economies of the countries by draining away much needed foreign exchange. Debt rescheduling, which is presently adopted to solve the debt crisis of African countries, constitutes only a relief of a temporary nature, and in fact, aggravates the debt service problems in later years. Moreover, rescheduling is always tied to a prior agreement with the IMF on a set of economic programmes and policies to be implemented which sometimes create more economic and social hardship than they solve. We appeal to IMF to design more flexible programmes and policies for countries applying for a debt rescheduling. We also feel that the IMF ought to encourage creditors to improve their rescheduling terms for African countries by allowing longer grace and maturity periods as well as lower interest rates. Some creditors also ought to be urged to cancel some or all of the debt of African countries or to convert part or all of the debt into grants

or equity. Since the IMF itself has become a major creditor of many African countries, it ought to set up a new mechanism to help those African countries which, because of exogenous factors, are unable to repay their obligations to the Fund on schedule.

The IMF also ought to look into the possibility of establishing a new credit facility designed to alleviate the debt service burden of African countries caused by high real interest rates. It should also be urged to support and participate actively in the convening of an international conference on Africa's external indebtedness whose aim will be to devise short medium and long term solutions to the debt crisis of African countries.

5. Reform of the International Monetary System

There appear to be a general consensus that the present international monetary system concentrates the decision making power in money and finance amongst the few highly developed countries of the world and is unfair to developing countries. Therefore the system ought to be reformed to ensure the effective participation of developing countries in the decisions on money and finance which affect the economies of developing nations as much as they affect those of developed nations. An international conference on money and finance for development ought to be convened to discuss modalities of a new international monetary system, that would be fully responsive to the needs of developing countries.